

Small cap buy-out secondaries: an attractive niche

“Our latest Secondary Fund forms part of a long track-record in secondary transactions, dating back to 2002. Today, we typically deploy between €400 million and €500 million per year on the secondary market.”

Reflecting strong investor appetite, the global private equity secondary market transaction value is expected to reach \$140 billion in 2024, up by 28% since 2023 and by 17% p.a. since 2022.¹ In a fast-growing market, Access Capital Partners has adopted a unique approach that leverages its historical expertise in small caps to unlock its full potential.

Managing Partners Agnès Nahum and Philippe Poggioli share their analysis of the secondary market and discuss Access Capital Partners' strategic positioning.

The secondary market has expanded substantially in recent years. What is your view on this growth?

The market has certainly grown at a rapid pace – perhaps even too quickly.

The reasons for this are well known: visibility on the portfolios being purchased, capital put to work swiftly, attenuation of the J-curve, diversification etc. As a result, secondary funds have raised massive amounts of capital, which now need to be invested. However, the overall Private Equity market and transaction volume largely outpaces the increase in secondary dry powder in Europe.²

Another consequence of secondaries' expansion is the intensified competition, especially in mid and large cap deals, which account for the majority of the market. We are thus seeing a steady decline in gross target returns at transaction level. It is therefore tempting to offset this through leverage and aggressive recycling, by reinvesting the initial returns on investment, which considerably lengthens the time taken to redistribute cash to investors. In short, the success of the secondary market is blurring its initial promise of generating quicker returns to investors.

Against this background, the small cap buy-out segment of the secondary market is less addressed, with few secondary players investing exclusively in this space, resulting in limited competition and significant potential. At underlying portfolio level, its inherent advantages – lower entry valuations and leverage, light intermediation, more levers for value creation, potential for higher EBITDA multiple expansion upon exit – offer attractive secondary opportunities.

¹ Sources include Lazard's Interim Secondary Market Report 2024 and Jefferies H1 2024 Global Secondary Market Review.

² According to Preqin, \$48bn of dry powder available for Secondaries in Europe in 2023 (+20% vs 2022), versus \$435bn for overall Private Equity (+1% vs 2022).

How are you positioned in this context?

We are deliberately not following the mainstream approach. As a leading player in primary buy-out fund commitments with a marked specialisation in European small caps, we focus on the same segment on the secondary market.

Our deep knowledge of the smaller end of the buy-out market is a significant competitive advantage. Our approach to the primary market – built around large tickets in small (often emerging) funds and close relationships with fund managers – naturally opens doors for us in the secondary market. There are real synergies between our primary and secondary activities in the small cap segment. This enables us to generate strong proprietary secondary deal flow and to aim for high return targets without systematic recourse to leverage.

How do you approach transactions, whether LP- or GP-led?

Access invests in both LP- and GP-led deals to optimize its risk-return investment profile in the short and long term. We focus on cash-generating assets which operate in industries expecting to perform against market cycles. When it comes to LP-led secondary deals, we are very selective. We rarely buy large portfolios, but rather single fund positions or more concentrated portfolios. Similarly, in the case of GP-led transactions, we truly favour a tailor-made approach working hand in hand with GPs to select assets.

You closed a secondary fund last year. Could you say a couple of words on it?

Our latest Secondary Fund had its final closing in 2023 and is already fully invested. This Fund forms part of a long track-record in secondary transactions within Access' funds of funds, dating back to 2002. Today, we typically deploy between €400 million and €500 million per year on the secondary market, giving us the means to achieve our market presence and performance goals. Worth noting that with this Fund, we organised the first distribution to investors just a few months after the final closing.

Our next generation secondary fund will be launched in the coming months. We are maintaining the same investment discipline in targeting the small cap buyout segment, where the market is less structured and our leading position in the space is a key success factor.

About Access Capital Partners

Established in December 1998, Access Capital Partners is an independent Private Assets manager, majority owned by its management. With offices in six European countries and aggregate investor commitments of €14.3 billion, Access' integrated expertise offers exposure to Small Cap buy-outs, Infrastructure, and Private Debt through multi-strategy funds, secondary funds, direct co-investment funds as well as customized client solutions. As an early signatory of the UN-PRI in 2008, the firm is fully committed to integrating Environmental, Social and Governance best practices into its investment strategies, acknowledging that a responsible investment approach enhances long term returns.

www.access-capital-partners.com

€14.3bn AUM*

350 INVESTORS

6 EUROPEAN OFFICES

100 PROFESSIONALS

*funds historically raised

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